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FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC PRIORITY 6667

C O N F I D E N T I A L SECTION 01 OF 02 BOGOTA 03583

E.O. 12356: DECL:OADR

TAGS: EPET, CO

SUBJECT: OCCIDENTAL PETROLEUM PRODUCTION
PLANS/OTHER COMMENTSREFS: (A) BOGOTA 1805 (B) BOGOTA 1616 (C) BOGOTA
1098 AND PREVIOUS

1. SUMMARY: THE FINAL RIO SULIA -- COVENAS PORTION OF THE CANON-LIMON PIPELINE WILL BECOME OPERATIONAL ON MARCH 21. INITIAL PRODUCTION WILL BE 90,000 BPD, INCREASING TO 120,000 BPD BY MAY 1. OCCIDENTAL MARKETING SPECIALIST EXPECTS AGREEMENT DURING MARCH OPEC MEETING POSSIBLY LEADING TO PRICE INCREASE OF AS MUCH AS U.S \$5.00/BARREL. SHOULD PRICES REMAIN LOW, OIL SECTOR INVESTMENT IN COLOMBIA WILL FALL RADICALLY, ESPECIALLY IN LIGHT OF ILL WILL CAUSED BY GOC OIL DECREES 128, 196. END SUMMARY.

2. THE RIO SULIA TO COVENAS PORTION OF THE CANON LIMON PIPELINE IS SCHEDULED TO BECOME OPERATIONAL ON MARCH 21, WHEN WATER DISPLACEMENT BEGINS. INITIAL PRODUCTION WILL BE AT 90,000 BARRELS PER DAY.

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OCCIDENTAL WILL CONTINUE PRODUCTION AT 90,000 BPD FOR 2-3 MONTHS TO WORK THE BUGS OUT OF THE SYSTEM. BY MAY, WITH THE ADDITION OF PUMP STATION FOUR,

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UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: OSCAR J. OLSON
DATE/CASE ID: 24 OCT 2002 200201334

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PRODUCTION WILL INCREASE TO 120,000 BARRELS PER DAY.

3. AT 90,000 BPD, CRUDE WILL BEGIN ARRIVING AT COVENAS APRIL 2. OCCIDENTAL IS CURRENTLY WORKING TO CONTRACT A 60-70 THOUSAND DEADWEIGHT TANKER (APPROXIMATELY 450-550 THOUSAND BARREL CAPACITY) TO TRANSPORT THE CRUDE TO THE U.S. GULF COAST. THE TANKER IS SCHEDULED TO BE ON STATION AS OF JULY 2. FYI: OCCIDENTAL HAS FOUND THAT TRANSPORT COSTS ARE LOWER USING MEDIUM SIZED TANKERS BECAUSE OF THE STRUCTURE OF DEMURAGE CHARGES. GENERALLY, CONTRACTORS ARE GIVEN 48 HOURS TO FILL A TANKER BEFORE DEMURAGE CHARGES BEGIN. IT WILL TAKE 5-6 DAYS TO FILL THE CONTRACTED TANKER AT 90,000 BARRELS A DAY.

4. PIPELINE AND FIELD CAPABILITY WILL BE ROUGHLY 180,000 BPD BY THE TIME THE LARGE PERMANENT STORAGE TANKER IS MOORED OFF COVENAS, NOW SCHEDULED FOR JULY 1. THIS IS A DELAY FROM THE PREVIOUSLY HOPED FOR APRIL 1 MOORING DUE TO UNEXPECTED CRACKING OF THE SPECIAL COATING ON THE TANKER WHICH NOW HAS TO BE REDONE. OCCIDENTAL HOPES TO INCREASE EXPORTS TO AT LEAST 200,000 BPD WHEN THE STORAGE TANKER IS IN PLACE.

5. OCCIDENTAL MARKETING REP SAID THAT IF CRUDE WERE SOLD NOW, AVERAGE PRICE WOULD BE IN THE U.S. \$12-13/BARREL RANGE. HE EXPECTS THE MARCH OPEC MEETING WILL PROBABLY RESULT IN SOME FORM OF AGREEMENT, AS PRESSURE FROM COUNTRIES SUCH AS CONFIDENTIAL

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VENEZUELA, INDONESIA, MEXICO AND INVITED NON-MEMBER "OBSERVER" COUNTRIES ARE FELT. IN THE REP'S VIEW, SUCH AN AGREEMENT COULD CAUSE AN INCREASE IN PRICE OF AS MUCH AS U.S. \$5.00 PER BARREL OVER A RELATIVELY SHORT PERIOD (READ 1-3 MONTHS).

OCCIDENTAL HOPES TO REAP SOME BENEFIT BY WAITING TO SELL CANON-LIMON CRUDE UNTIL CLOSER TO THE APRIL 2 ARRIVAL AT PORT DATE. IN ANY CASE, INITIAL SHIPMENTS OF CANON-LIMON CRUDE WILL GO OUT AS "TEST CARGOS," MEANING THEIR PRICE WILL BE SOMEWHAT LOWER THAN IF IT WERE "KNOWN" CRUDE.

6. OCCIDENTAL ENTERED INTO A SWAP AGREEMENT AT THE

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END OF FEBRUARY WITH GOC OIL COMPANY, ECOPETROL, IN WHICH OCCIDENTAL CANON-LIMON OIL WAS TRADED ON A VOLUME BASIS FOR ORIETO CRUDE FROM THE SOUTHERN FIELDS. OCCIDENTAL SOLD THE ORIETO CRUDE ON THE INTERNATIONAL SPOT MARKET AS A TRIAL CARGO. THE PRICE RECEIVED WAS THE SPOT PRICE PLUS FORTY-SIX CENTS FOR TRANSPORT. EMBASSY ESTIMATES APPROXIMATE PRICE PER BARREL AT U.S.\$ 15.46. OCCIDENTAL AGREED TO BRING ALL FOREIGN EXCHANGE EARNINGS FROM THE SALE BACK INTO COLOMBIA. USUAL PERCENTAGE IS 25. OCCIDENTAL REP NOTED THAT IN THIS CASE THE COMPANY WAS NOT CONCERNED OVER THE 100 PERCENT REPATRIATION AS IT NEEDED PESO INCOME IN COLOMBIA TO COVER OPERATING EXPENSES.

7. OCCIDENTAL REP NOTED THAT COLOMBIANS TRIED TO SELL ORIETO CRUDE THEMSELVES THROUGH A CONTRACT BID SYSTEM. BIDS RECEIVED WERE CONSIDERED TOO LOW TO ALLOW SALE. COLOMBIANS THEN AGREED TO SWAP. OCCIDENTAL REP NOTED THAT COLOMBIANS SEEM TO BE PLANNING TO ENTER THE INTERNATIONAL SALES FRAY IN

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TO SECSTATE WASHDC PRIORITY 6668

C O N F I D E N T I A L SECTION 02 OF 02 BOGOTA 03583

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THE SPOT MARKET BUT CURRENTLY DO NOT HAVE THE KNOW-HOW TO DO SO OR THE PERSONNEL/MANGERIAL

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INFRASTRUCTURE TO DO SO. ALL COLOMBIAN FUEL OIL SALES, FOR EXAMPLE, ARE DONE ON A BID SYSTEM UNDER WHICH PROSPECTIVE PURCHASERS LITERALLY BID ON A TANKER WORTH OF OIL: THE HIGHEST BIDDER GETS THE OIL UNLESS ALL BIDS ARE REJECTED.

8. OCCIDENTAL NOTED THAT IF THE PRICE OF CRUDE DOES NOT GO UP SOON, NEW INVESTMENT IN THE COLOMBIAN OIL SECTOR WILL FALL RADICALLY. OIL DECREES 128 AND 196 WERE ALREADY HAVING A NEGATIVE EFFECT. OCCIDENTAL, FOR EXAMPLE, HAS DECIDED TO CUT OUT SIX PLANNED WELLS IN 1986, AND WILL NOW DRILL 4 RATHER THAN 10.

9. OCCIDENTAL FINANCIAL VICE PRESIDENT NOTED THAT COLOMBIAN OIL COMPANY, ECOPETROL IS BEHIND IN ITS CASH CALLS. OCCIDENTAL HAS TOLD ECOPETROL IT IS "TECHNICALLY" IN DEFAULT ON PAYMENT. OCCIDENTAL CONFIDENTIAL

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ARGUES THAT HIGHER EXPORT PRODUCTION WOULD ELIMINATE ECOPETROL'S CASH FLOW PROBLEM. OIL EXPORTS HAVE BECOME AN INTERNAL POLITICAL ISSUE, HAMPERING GOC ABILITY TO INCREASE SUBSTANTIALLY PRODUCTION FOR EXPORT. MINISTER OF MINES AND ENERGY DUQUE REMAINS A PROONENT OF HOLDING OIL IN THE GROUND, LIMITING EXPORTS UNTIL PRICES GO UP. OTHERS ARGUE THAT OIL MUST BE EXPORTED AND INCOME GENERATED TO ALLOW FOR MORE EXPLORATION, PAY FOR PETROLEUM PRODUCT IMPORTS, ETC. WE WILL PROBABLY SEE LITTLE CHANGE IN ADVANTAGE FOR EITHER SIDE UNTIL AFTER THE MAY PRESIDENTIAL ELECTIONS.

10. THE BOTTOM LINE, HEARD FROM OCCIDENTAL, TEXACO, AND A SAMPLE OF SMALLER OIL CONCERN OPERATING HERE, IS THAT THE LOW PRICE IS DRYING UP INVESTMENT AND MAKING SOME WELLS UNPROFITABLE TO RUN. OCCIDENTAL AND TEXACO REPS NOTED THAT SOME COMPANIES, TEXACO INCLUDED, THAT PUMP HEAVY CRUDE, ARE ON THE VERGE OF SHUTTING DOWN PRODUCTION DUE TO LOW PRICE. CONCESSION CONTRACTORS ARE RECEIVING U.S. \$ 10 OR LESS PER BARREL FOR CURRENT PRODUCTION. GILLESPIE.

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